

Swim or sink: the predicament of the Fiji economy

Satish Chand

In announcing the revised Fiji budget for 2007, the Interim Finance Minister claimed that there was little choice for the economy but to swim, or else it would sink. This survey endorses the Interim Minister's view that the prevailing economic problems are the cumulative outcome of decades of poor economic management but disagrees with his conclusion that the only options are 'swimming' or 'sinking'. Much like the previous three coups, the December 2006 coup exacerbated an economic decline that was well under way when the current administration took office. Each coup, moreover, has on average wiped off three years of economic progress. Hard choices have to be made, and the Interim Government has to learn to swim out of the economic turbulence created by the last coup. Failing that, the administration could 'just float', but is more likely to be sucked into an economic crisis that will draw many more into poverty. Learning to swim will entail restoring political stability, improving governance, and charting a clear and quick path to democratic rule.

Satish Chand is Associate Professor and Director of the Pacific Policy Project in the Crawford School of Economics and Government, The Australian National University.

The Interim Finance Minister, Mahendra Chaudhry, in launching the revised budget for 2007 stated that

[w]e are at a juncture where we either sink or swim as a nation. I intend to make sure that we swim. To do this we will have to make some sacrifices. We will need to address these challenges now (*Fijilive*, 2 March 2007).

While this economic survey endorses the view of tough economic times facing Fiji, it questions whether sinking is an option. Moreover, the reputation of the Interim Government is dependent in large part on reviving the ailing economy. Achieving

this goal has been made more difficult by the economic contraction following the coup of 5 December 2006. In its review of the economy in February 2007, the Reserve Bank of Fiji announced that some 3,000 jobs had been lost since the coup due to the closure of the gold mine and the slump in the tourism industry. At the time of the writing of this survey, the economic fallout from the coup was far from over.

The immediate challenge facing the administration is maintaining foreign reserves at adequate levels. The closure of the gold mine in Vatukoula around the time of the coup created a dent of some

Economic survey

7 per cent in foreign exchange earnings from merchandise exports. The mine provided some 1,700 jobs and the spillover benefits to the surrounding locality. While the operators of the mine had argued for immediate closure, given its deteriorating commercial position, the timing of the closure announcement (on the day of the coup) was a severe blow to investor confidence. In the immediate aftermath of the coup, the Reserve Bank of Fiji tightened foreign exchange controls to protect reserves, which have been falling since 2002.

There is little escape from the fact that the economy has been hit hard by the coup. Exports are down, investments are on hold, and jobs are being lost. Tourism holds the best prospects for an economic revival, but this requires the lifting of travel restrictions and a return to normalcy in diplomatic relations between the major source destinations, Australia, New Zealand and the United States.

Without subsidies of some kind, Fiji is never going to be a source of mass-produced manufactures for the global market place (Winters and Martin 2004). Its small size, relative isolation from the major industrial country markets, and higher unit labour costs than its competitors are disadvantages for manufacturing activities that have been offset by the substantial subsidies provided via the preferential trading arrangements. Contrary to the claims of the Interim Minister of Finance, the prospects of a complete revival of the sugar industry are poor and those for garment exports just as rickety. International conditions for both of these exports have worsened, with the price premium earned by local producers from trade preferences in their main markets on the ebb. Garment and sugar producers were already facing severe adjustment costs as a result of the changing international conditions; their main hopes rested with growth in the rest of the economy and

adjustment assistance from the donors and the government. The coup has put all of these hopes at risk.

The key messages of this survey are

- the economy is declining, and the worsening external and internal imbalances make an economic revival all the more urgent. Such a revival requires the rebuilding of investor confidence and the removal of the many conflicting policies that have been adopted by previous governments.
- the gains from the expanding global and regional economies could be tapped better by deepening trade links; and this gives urgency to the relaxation of capital controls and a return to 'normalcy' so that travel restrictions by source destinations for tourists can be eased.
- that each coup has cost Fiji a minimum of three years of economic progress, and lowered the rate of growth of income by slowing down private investment and encouraging capital flight.

Clearly the coup culture has to be eradicated if prosperity is to have a chance. However, economic prosperity is as much a product of peaceful coexistence as it is a cause of it.

Coups and more coups?

Fiji has had four military coups in its 37-year post-independence history. Each coup had its own drivers, but a reason given for the first three was to return the political leadership to the indigenous peoples. The two coups of 1987 and that of 2000 displaced governments that were purported to be dominated by Indo-Fijians and thus were condoned by the chiefs in their role as the representatives of the indigenous population, by the Methodist church which has a majority indigenous following, and by the army which is also dominated by indigenous Fijians. In each case, the overthrow of a constitutionally

Economic survey

elected government had a deleterious impact on the economy and on private investment in particular. They also signaled that rule by the gun had superiority over rule through the ballot box, and consequently eroded the legitimacy of legislated constructs such as the constitution and respect for institutions of civil society.

The downward trend in investment since the first coup is partly visible in the form of the deteriorating physical infrastructure. Suva rarely had water cuts and 'brown-out' was not a term with any currency in pre 1987 Fiji. The corrosive effects of the coups are also visible in the form of potholes, and spurts in violent crime in their immediate aftermath. With respect to violent crime, the 2006 coup was different as soldiers clamped down heavily on socially disruptive behaviour—but the potential for violence remains.

The first coup sanctioned income redistribution to the indigenous population; with the policies supporting the redistribution often couched in terms of poverty reduction. However, these redistribution policies have lent themselves to abuse, particularly by the élite. The largest scam in Fiji's history—the National Bank of Fiji financial disaster, which cost taxpayers some F\$220 million—was undertaken under the guise of affirmative action. The beneficiaries of this scam were far from being poor Fijians; rather, the scam was a tax imposed on the poor for the benefit of the rich. Many more scams have followed. According to one estimate, losses due to corruption and abuse of office in the decade to 2002 amounted to half a billion Fiji dollars (Siwatibau, *Fiji Post*, 7 February 2002). Moreover, the abuses of office have extended well beyond corruption. Abuses of legal processes such as the release of prisoners on compulsory supervision orders have also followed. In sum, good governance has been a major, albeit a silent, victim of past coups.

The 2006 coup was rationalised as one to improve governance; whether this is the case remains to be seen. Many in Fiji are disillusioned by the deteriorating state of the physical and social infrastructure. The Republic of Fiji Military Forces (RFMF) had been voicing its opposition to what it saw as abuses of office since 2004 and in the lead up to the elections threatened a 'clean up' should the elected government continue with the abuses.

The dwindling foreign reserves, rising unemployment, and worsening poverty all pointed to a gloomy future. In hindsight, it is clear that something had to give. The coup by the RFMF was a surprise to many only because the Commander had so often threatened the overthrow of the government.

At least in rhetoric, the coup of 2006 is significantly different from the previous coups. Importantly for this survey, the Interim Prime Minister on taking office committed his administration to

- upholding the Constitution
- eradicating 'systematic' corruption
- introducing 'Code of Conduct and Freedom of Information' provisions
- facilitating sustained growth of the economy
- reducing poverty and levels of destitution in the nation
- ensuring that a greater share of the benefits from utilisation of natural resources, land included, flowed to the owners, and
- improving relations with the international community.

It may be early days to assess progress on each of the commitments, but a start is made here. There is evidence of some improvement in law and order, notwithstanding the disturbing allegations of human rights abuses; raising questions regarding the

Economic survey

commitment to uphold the Constitution. On the second, an anti-corruption agency has been established. This is a marked improvement on past administrations, given that such action was first proposed in 1997 in a report commissioned by the then Finance Minister and produced by the former head of the Serious Fraud Unit of New Zealand. As of April 2007, there were media reports of raids on offices suspected of being engaged in corrupt dealings and evidence being gathered. No successful prosecutions have as yet materialised, although it has to be recognised that bringing such cases to court is a lengthy process. On the third commitment, code of conduct and freedom of information provisions are as yet to be produced.

Progress on the final four commitments is difficult to evaluate for several reasons, including the fact that they are intertwined and any evidence of their progress is likely to become clear only slowly. As of April 2007, the economy was showing little signs of a rebound, foreign exchange reserves were still at precariously low levels, poverty was showing little signs of improving, and relations with the international community was just beginning to thaw following the meeting of Forum Foreign Ministers in Port Vila.

It is early days to pass judgment on whether the coup of 2006 will be the last or whether the RFMF elevates itself to a position where democracy will be allowed but only with its blessing. However, the public will soon be in a position to judge progress on each of the developmental and governance commitments made by the Interim Prime Minister. A favourable scenario for Fiji would be where the quality of governance improves rapidly in the next 12 months, successful prosecutions are made with respect to some high profile cases of abuse of office, private investment rebounds, the economy begins to grow,

and the levels of poverty and destitution begin to recede. Such a scenario would set in train the virtuous effects of economic prosperity on peace for the rebuilding of institutions of civil society and a jettisoning of the coup culture. Converse scenarios are too frightening to contemplate as they could include the economy spinning out of control and simultaneous political chaos; which would be akin to a rapid sinking to the depths of 'couptopia'.

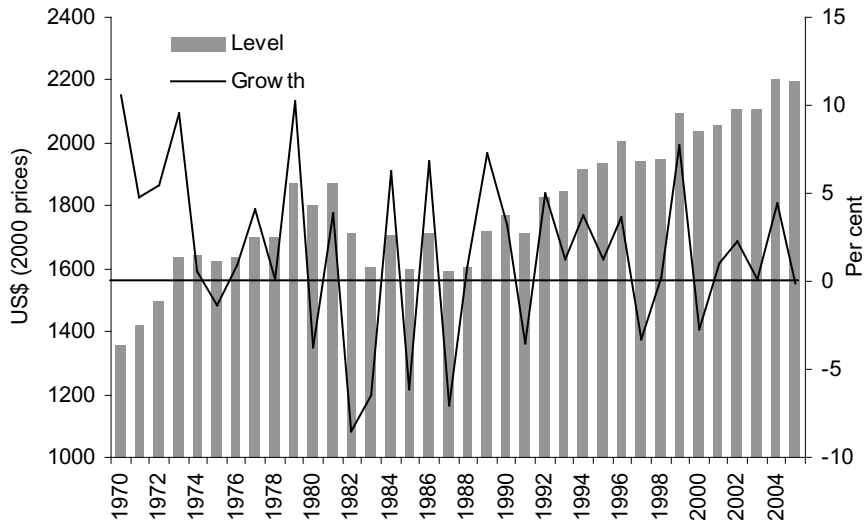
The macroeconomy

Aggregate GDP has been forecast by the Interim Government to contract by 2.5 per cent in 2007 after having grown by 3.6 per cent in 2006 (Reserve Bank of Fiji 2006).¹ Per capita GDP for the 35 years since independence grew at an annual average rate of less than 1.4 per cent (Figure 1). The growth rate of per capita GDP, moreover, has been highly volatile. The figure also shows that per capita GDP contracted substantially in the years of coups—by 7 per cent in 1987 and by 2.7 per cent in 2000. In terms of growth collapses, the 1987 coup set Fiji back in terms of per capita GDP by six years (Table 1). In comparative terms, the 2000 coup was less damaging as it set the country back in terms of per capita GDP by two years.

Assuming a population growth rate of one per cent, per capita GDP in 2007 will fall by 3.5 per cent; this will wipe off at least two and a half years of economic progress. Thus, each of the past coups has wiped off, on average, three years of economic growth. The impact of the coups on poverty, however, could have been a lot larger than these average figures suggest. One in eight in the population were in poverty in 1977; this figure had risen to one in four by 1991 and to one in three by 2001 (United Nations Development Programme 1996; Abbott 2007).

Economic survey

Figure 1 Level and rate of growth of per capita GDP, 1970–2005



Source: World Bank, 2007. *World Development Indicators*, World Bank, Washington, DC.

Fiji is somewhat anomalous amongst the United Nations Development Programme's (UNDP) medium Human Development Index (HDI) nations in terms of the incidence of poverty relative to per capita income. The most recent data, that of 2004, shows Fiji had a purchasing-power-parity adjusted (PPP) per capita GDP of F\$6,066 and some 34.4 per cent of the population were in poverty (the poverty percentage is based on the national poverty line, Table 2). Countries similar to Fiji on this count were Kazakhstan, which had a per capita GDP of F\$7,440 and a poverty rate of 34.6 per cent; Belarus with a per capita GDP of F\$6,970 and a poverty rate of 41.9 per cent; and Columbia with a per capita GDP of F\$7,256 and a poverty rate of 64 per cent (UNDP 2007). Others with poverty rates similar to Fiji but with much lower incomes included Philippines and Papua New Guinea, which had 36.8 per cent and 37.5 per cent, respectively, of

their population in poverty, but had per capita incomes that were 76 per cent and 42 per cent, respectively, of Fiji's. Sri Lanka, a nation in the midst of a civil war since 1983, had still managed to keep poverty one-third lower than that of Fiji, with an income that was only 62 per cent that of Fiji (Table 2).

Poverty has been on the increase in Fiji and this trend is likely to continue. Real wages of unskilled workers fell by some 15 per cent over the decade to 2002 (Abbott 2007). The earnings of those fortunate enough to have work have often been insufficient to fund the minimal basic needs of their households; they thus comprise the 'working poor'.² The pool of the 'working poor' and that of the 'walking poor' has grown after each of the coups (Chand 2007, this issue). Households most at risk of being in poverty or falling into poverty include the destitute, comprising single mothers, widows, the disabled, the elderly

Economic survey

Table 1 Basic data on Fiji, 1970–2006

| Series | GDP growth | GDP per capita | Gross capital formation | Foreign direct investment, net inflows | Population aged 15–64 | Urban population | Population growth |
|--------|--------------------|----------------------|-------------------------|--|-----------------------|---------------------|-------------------|
| | (annual per cent) | (constant 2000 US\$) | (per cent of GDP) | (per cent of GDP) | (per cent of total) | (per cent of total) | (annual per cent) |
| 1970 | 12.70 | 1,357.36 | 22.16 | 2.91 | 54.05 | 34.80 | 2.10 |
| 1971 | 6.89 | 1,420.78 | 24.82 | 2.62 | 54.82 | 35.18 | 2.10 |
| 1972 | 7.49 | 1,495.72 | 23.96 | 2.68 | 55.62 | 35.56 | 2.08 |
| 1973 | 11.61 | 1,635.55 | 22.23 | 3.69 | 56.37 | 35.94 | 2.05 |
| 1974 | 2.60 | 1,644.85 | 18.91 | 2.56 | 57.00 | 36.32 | 2.00 |
| 1975 | 0.53 | 1,621.73 | 20.63 | 2.06 | 57.48 | 36.70 | 1.94 |
| 1976 | 2.74 | 1,635.48 | 21.49 | 1.06 | 57.80 | 36.92 | 1.85 |
| 1977 | 5.90 | 1,701.44 | 23.18 | 2.38 | 57.96 | 37.14 | 1.78 |
| 1978 | 1.86 | 1,702.13 | 22.76 | 1.47 | 58.03 | 37.36 | 1.81 |
| 1979 | 12.22 | 1,873.35 | 31.05 | 1.00 | 58.06 | 37.58 | 1.95 |
| 1980 | -1.60 | 1,804.08 | 31.84 | 3.02 | 58.09 | 37.80 | 2.15 |
| 1981 | 6.33 | 1,872.58 | 34.28 | 2.93 | 58.14 | 37.94 | 2.41 |
| 1982 | -5.98 | 1,715.71 | 25.56 | 3.08 | 58.20 | 38.08 | 2.58 |
| 1983 | -3.96 | 1,606.93 | 21.14 | 2.84 | 58.26 | 38.22 | 2.51 |
| 1984 | 8.39 | 1,705.14 | 18.92 | 1.98 | 58.32 | 38.36 | 2.13 |
| 1985 | -4.61 | 1,601.30 | 19.07 | 1.90 | 58.39 | 38.50 | 1.56 |
| 1986 | 7.75 | 1,709.61 | 18.22 | 0.62 | 58.44 | 39.12 | 0.92 |
| 1987 | -6.62 | 1,590.22 | 16.03 | 1.37 | 58.51 | 39.74 | 0.40 |
| 1988 | 0.96 | 1,603.61 | 12.88 | 2.85 | 58.61 | 40.36 | 0.11 |
| 1989 | 7.44 | 1,719.94 | 13.43 | 0.74 | 58.78 | 40.98 | 0.17 |
| 1990 | 3.60 ^a | 1,769.81 | 14.28 | 6.87 | 59.03 | 41.60 | 0.47 |
| 1991 | -2.70 ^a | 1,713.18 | 15.71 | 0.37 | 59.36 | 42.38 | 0.85 |
| 1992 | 6.10 ^a | 1,824.49 | 12.77 | 6.76 | 59.77 | 43.16 | 1.14 |
| 1993 | 2.60 | 1,847.24 | 15.98 | 5.58 | 60.22 | 43.94 | 1.33 |
| 1994 | 5.10 | 1,915.25 | 13.49 | 3.70 | 60.69 | 44.72 | 1.36 |
| 1995 | 2.50 | 1,938.19 | 13.58 | 3.49 | 61.16 | 45.50 | 1.28 |
| 1996 | 4.80 | 2,007.32 | 11.32 | 0.11 | 61.63 | 46.06 | 1.18 |
| 1997 | -2.20 | 1,941.17 | 11.51 | 0.74 | 62.09 | 46.62 | 1.13 |
| 1998 | 1.30 | 1,945.42 | 15.91 | 6.48 | 62.54 | 47.18 | 1.07 |
| 1999 | 8.80 | 2,094.83 | 14.94 | -1.79 | 62.94 | 47.74 | 1.03 |
| 2000 | -1.70 | 2,038.61 | 12.59 | -1.08 | 63.29 | 48.30 | 1.01 |
| 2001 | 2.00 | 2,059.27 | 13.80 | 2.62 | 63.58 | 48.80 | 0.97 |
| 2002 | 3.20 | 2,105.50 | 15.90 | 1.15 | 63.82 | 49.30 | 0.93 |
| 2003 | 1.00 | 2,107.73 | 16.00 | 1.21 | 64.02 | 49.80 | 0.89 |
| 2004 | 5.30 | 2,200.61 | 17.00 | 3.63 | 64.23 | 50.30 | 0.85 |
| 2005 | 0.70 | 2,198.00 | .. | -0.14 | 64.45 | 50.80 | 0.82 |
| 2006 | 2.00 | .. | .. | .. | .. | .. | .. |

^a drawn from Fiji, 2001. *Key Statistics, December 2000*, Bureau of Statistics, Government of the Republic of Fiji Islands, Suva:9.

Source: World Bank, 2007. *World Development Indicators*, World Bank, Washington, DC.

Economic survey

and the chronically ill, and family members of imprisoned breadwinners. Those with casual work, often comprising the unskilled with earnings below the poverty line, including agricultural workers, bottom-rung garment factory employees and security guards fall into this group as well as those in rural areas with limited access to basic health, education, and infrastructure services and the landless urban settlers (UNDP 1997; Barr and Naidu 2002 quoted in Abbott 2007; Asian Development Bank 2003). Unfortunately, the ranks of each of these groups have been swelling over the past decade. The poorer households, on average, also have more dependents.

Abbott (2007:2) notes that urban poverty was the highest amongst households living in settlements and Housing Authority areas. Furthermore, the settlement population overall is expanding at an annual rate of 3.7 per cent; informal (*vakavanua*) settlements are growing at more than 5 per cent; peri-urban areas in Nadi are reported to be growing at an annual rate of 11.2 per cent, while Savusavu (growing at 12.8 per cent),

Sigatoka (growing at 9.1 per cent), and Ba (growing at 8.4 per cent) are all expanding rapidly (McKinnon et al. 2007). This trend is likely to continue given that leases continue to expire and that some 45 per cent of Indo-Fijian arrivals in the settlements since 2000 have been those whose leases had expired. The implications of these trends for health, security, and poverty are simply staggering (McKinnon et al. 2007). The concentration of poverty in the burgeoning settlements runs the risk of keeping asset-poor households in poverty permanently. Serious pockets of poverty have already developed amongst households within parts of urban settlements and rural areas facing sharp declines in agricultural income.

The coups and the ensuing political instability have adversely affected investment. Gross domestic investment (GDI) peaked at 34 per cent of GDP in 1981, dropped to 12 per cent in 1988 (after the first two coups), and hovered around 13 per cent in 2000 (Figure 2).³ These falls took place despite the introduction of tax incentives for investments for exports.

Table 2 Income and poverty levels for a sample of countries

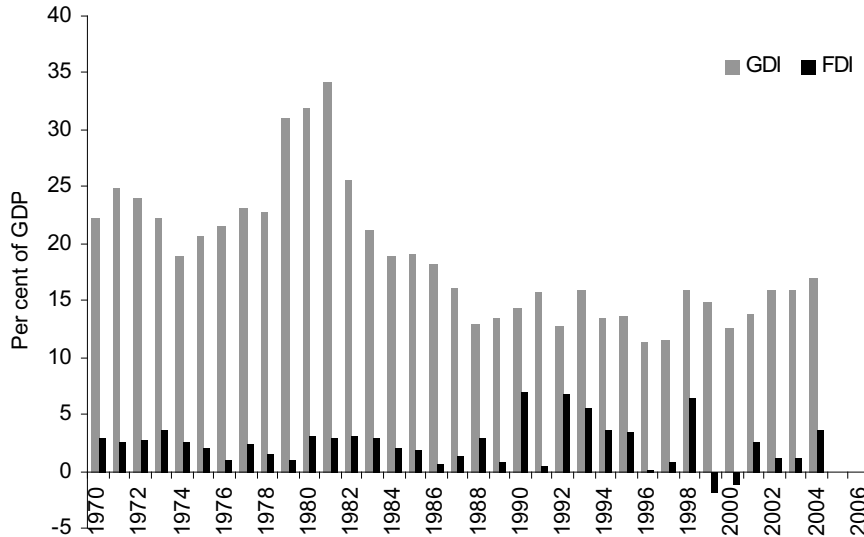
| Country | HDI | Per capita GDP | Population without access to improved water (per cent) | Poverty (per cent of population) |
|------------------|--------------|----------------|--|----------------------------------|
| Belarus | 0.794 | 6,970 | - | 41.9 |
| Colombia | 0.790 | 7,256 | 7 | 64.0 |
| Kazakhstan | 0.774 | 7,440 | 14 | 34.6 |
| Philippines | 0.763 | 4,614 | 28 | 36.8 |
| Fiji | 0.758 | 6,066 | 53 | 34.4 |
| Sri Lanka | 0.755 | 4,390 | 29 | 25.0 |
| Indonesia | 0.711 | 3,609 | 23 | 27.1 |
| Papua New Guinea | 0.523 | 2,543 | 61 | 37.5 |

Notes: The poverty data is for the most recent period available between 1990 to 2003 while HDI and per capita GDP data is for 2004.

Source: United Nations Development Programme, 2007. *Human Development Report: human development and climate change*, United Nations Development Programme, New York.

Economic survey

Figure 2 Investment, 1970–2005



Source: World Bank, 2007. *World Development Indicators*, World Bank, Washington, DC.

Foreign direct investment, the form of investment most sensitive to political uncertainty, was negative in 1999 and 2000. The small turnaround in GDI after 2002 can be attributed to increased public sector investment and to the construction of several (lumpy) private-sector investments in tourism (hotel) infrastructure. There is anecdotal evidence to suggest that the 2006 coup has stalled several investment projects. If so, the effects will be captured in the data some years down the track. The falls in investment following past coups have been accompanied by an exodus of skilled personnel; thus, the economy has suffered a double whammy of the loss of financial and human capital. Again, the data are not yet available to show if the same thing has happened following the 2006 coup.

The more immediate and pressing challenge for the government is maintaining the budget deficit within the 2 per cent of

GDP level announced in the budget and for the Reserve Bank of Fiji to maintain an adequate level of foreign reserves.

Fiscal position

The Interim Finance Minister announced the theme of his budget as 'securing financial and economic stability'. While the Minister did not define what he meant by these two terms, the first is interpreted as achieving fiscal sustainability while the latter is interpreted as achieving internal and external balance. Priority has been given to the former in the revised budget.

Securing financial stability entails reducing expenditure, raising income, and/or improving productivity of public outlays to contain any deterioration in access to public services. The Minister warned that failing to contain the deficit would result in a devaluation of the Fiji dollar. While budget deficits and current account deficits have

Economic survey

a close association, linking fiscal policy to the value of the Fiji dollar may have been a mistake, particularly when the risk of capital flight following the coup remains significant. The government may achieve its deficit target but this will be no guarantee against a devaluation of the currency. Ultimately, current account sustainability will hold sway in determining the value of the currency. The decision to devalue the currency, thus, would be driven by considerations of ensuring external balance.

Savings in the revised budget have been achieved through a salary cut of 5 per cent for public servants. While this salary cut is lower than the 12.5 per cent and 15 per cent pay cuts following the coups of 2000 and 1987, respectively, public servants were also denied the 4 per cent cost of living adjustment agreed to with the ousted government. Total savings from this measure have been estimated at F\$70 million. Amongst the major revenue initiatives is an increase in the airport departure tax from F\$25 to F\$40 that is anticipated to raise an additional F\$7.9 million. VAT has been left at 12.5 per cent instead of the 15 per cent in the original budget brought down by the ousted government in November 2006. Government debt as of 2006 was estimated at 53 per cent of GDP. With a projected budget deficit of 2 per cent of GDP, the debt level is going to be pushed up further.

While the motivations for containing public expenditure are clear, the impact of these on public sector productivity could be devastating. Salaries of public servants have barely kept pace with inflation since 1993 (Table 3 and Figure 3). Nurses entering the public service at the beginning of 2007 following graduation with a Diploma earned 22 per cent more, in 1993 dollars, than in 1993—an implied annual growth rate of real (that is, inflation adjusted) salary of 1.4 per cent. Nursing salaries, moreover, have hardly kept pace with inflation for

the first six years of the new millennium. Compounding the poor real income growth has been the high demand for nurses abroad; entry level salaries for registered nurses in Western Australia as of July 2006, for example, were almost four times that of their counterparts in Fiji. While repeated attempts to obtain data from the authorities on salaries of other professionals, such as graduate teachers, were unsuccessful, the conclusions with respect to nurses are expected to hold for the rest of the public service. Salary cuts for public servants, therefore, are likely to adversely affect productivity, while the lower productivity could just as much be a justification for real wage reductions. The joint effect of the above, together with aggressively pursued affirmative action policies within the public service, have induced emigration of those with internationally marketable skills, thus weighing down public-sector productivity even further.⁴

Efforts are being made to raise productivity of public expenditures via civil service reforms, however. The number of ministries has been reduced from 23 to 16 while a taskforce has been established to consider strategies for improving efficiency and productivity of the public service. However, while the budget has expressed the wish of the Interim Government to reform public enterprises with a view to increasing competition, no explicit mention has been made regarding privatisation of these enterprises. On the whole, the revised budget falls short in terms of details as to how an economic turnaround will be engineered.

Monetary stance

The conduct of monetary policy is the responsibility of the Reserve Bank of Fiji. The bank targets price stability whilst ensuring that an adequate supply of foreign exchange is maintained. Interest rates have been

Economic survey

Table 3 Entry salary for graduate nurses in Fiji, 1993–2007

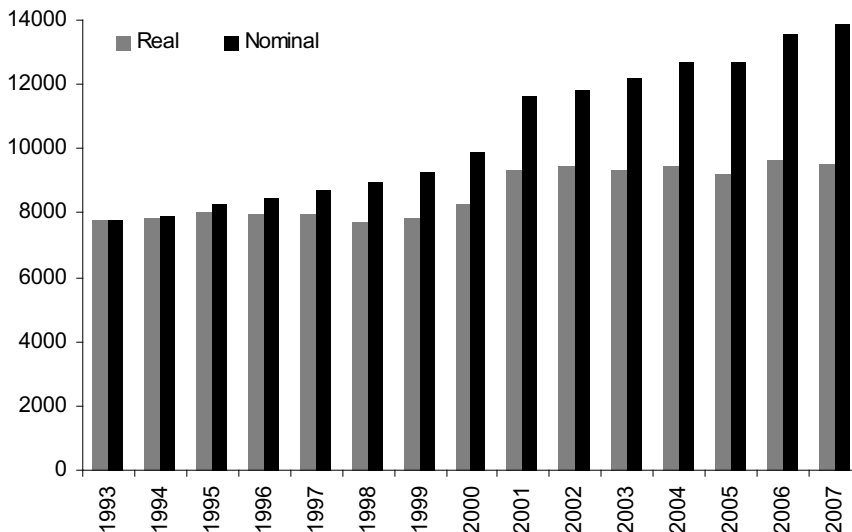
| | CPI | Nominal (F\$) | Real (F\$) |
|------|-------|------------------|---------------|
| 1993 | 100.0 | 7,784 | 7,784 |
| 1994 | 100.8 | 7,929 | 7,866 |
| 1995 | 103.0 | 8,250 | 8,009 |
| 1996 | 106.1 | 8,459 | 7,973 |
| 1997 | 109.7 | 8,713 | 7,943 |
| 1998 | 116.0 | 8,974 | 7,736 |
| 1999 | 118.3 | 9,243 | 7,813 |
| 2000 | 119.6 | 9,871 | 8,253 |
| 2001 | 124.7 | 11,619 | 9,318 |
| 2002 | 125.6 | 11,851 | 9,436 |
| 2003 | 130.9 | 12,204 | 9,323 |
| 2004 | 134.6 | 12,695 | 9,432 |
| 2005 | 137.7 | 12,695 | 9,219 |
| 2006 | 141.2 | 13,580 | 9,618 |
| 2007 | 145.4 | 13,847 | 9,521 |

Notes: Real salaries are at 1993 prices, obtained by deflating the nominal salaries by the CPI for the year.

An inflation rate of 3 per cent has been assumed for 2007. The salaries used are for those with a Diploma, a qualification introduced in 1994, which earned two increments above those with a certificate qualification prior to this date. The salaries for 2000 are those following the cut after the coup while that for 2007 is pre-cut salary. The salary cut of 2000 was reinstated in 2001.

Source: Data provided by the Fiji Nurses Association via Professor Ron Duncan, University of the South Pacific.

Figure 3 Entry salary for graduate nurses, 1993–2007



Source: Table 3.

Economic survey

used to target the former while the value of the exchange rate and capital controls have been used to ensure that foreign reserves remain at healthy levels. Inflation for 2006 was recorded at 3 per cent, and has hovered around this figure since 2004; thus, on price stability the Reserve Bank of Fiji has had considerable success. Its record in terms of maintaining a healthy stock of foreign reserves has not been as favourable. Fiji has traditionally maintained reserves sufficient for 6 months of merchandise import cover, but the level has dropped steadily from some 5.7 months of import cover in 2004 to 3.3 months of import cover by December 2006. Furthermore, the stock of foreign reserves as of December 2006 of F\$823 million included the proceeds from the bond issue of US\$150 million in September 2006. The pressure on foreign exchange reserves was relieved by the ratcheting up of interest rates prior to the coup and the ratcheting-up of capital controls since. The Reserve Bank of Fiji has rationalised these interventions as being 'necessary to ensure that reserves are safeguarded under the current circumstances' (Reserve Bank of Fiji 2006:33).⁵

The pressure on foreign reserves, however, predates the coup, which would only have exacerbated the problems. Both the nominal and the real (that is inflation adjusted) exchange rate have appreciated since 2003 (Reserve Bank of Fiji 2006:19). The nominal exchange rate is a weighted average of five currencies namely the Australian, New Zealand, and the United States dollars, the euro, and the Japanese yen. The weights are not disclosed (but can be readily computed from the data),⁶ and thus may be altered as an instrument of policy. Alternatively, the Reserve Bank of Fiji has the option of devaluing/revaluing the dollar. Both of these options have been used in the past.

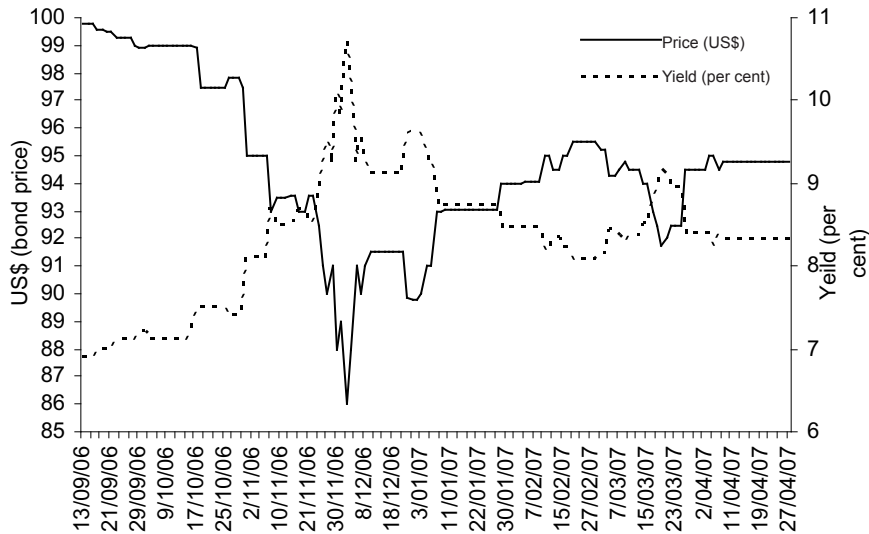
The revealed weights in the Fiji dollar are US\$ 30 per cent, A\$ 30 per cent, euro 24 per cent and NZ\$ 16 per cent. While the

weights for Australia and New Zealand are broadly in line with the share of these two economies in total merchandise trade, this is not true for Japan and the United States which accounted for 5 and 7 per cent, respectively, of total merchandise trade for 2005. The daily data indicate that the Japanese yen had a statistically significant weight, albeit of a very small magnitude, in determining the value of the Fiji dollar. Since all of the currencies in the basket have appreciated against the US dollar over the past 6 months, the Fiji dollar has followed suit. This has reduced the competitiveness of exports and encouraged imports, the cumulative effect of which would be reflected in terms of the pressure on the current account.⁷

There is some evidence of the Fiji dollar being overvalued, by at least 12 per cent as of 16 April 2007. This conclusion is gleaned from a simple comparison on the value of an investment in sovereign bonds *vis-à-vis* holding the same in Fiji dollar at home. The value of the bond fell by 14 percentage points immediately after the coup with the yield spiking commensurately, but then recovering much of the lost ground by mid April 2007 (Figure 5). This rebound, however, is only half of the story. An investor with F\$173.76 as of 12 September 2006 could, at least in theory, have bought the bond (call this Option 1) or alternatively deposited this money in a term deposit at home (call this Option 2). We will, for simplicity, assume that the deposit at home earns the same interest of 7 per cent per annum as earned on the bond. The daily movement in the value of the above options is tracked, where Option 2 is converted to US dollars at the daily official exchange rate (Figure 5). Option 2 gives a 12 per cent greater return than Option 1 by mid April 2007. The value of the bonds reflects investor confidence in the capacity of the government to service its debt while the

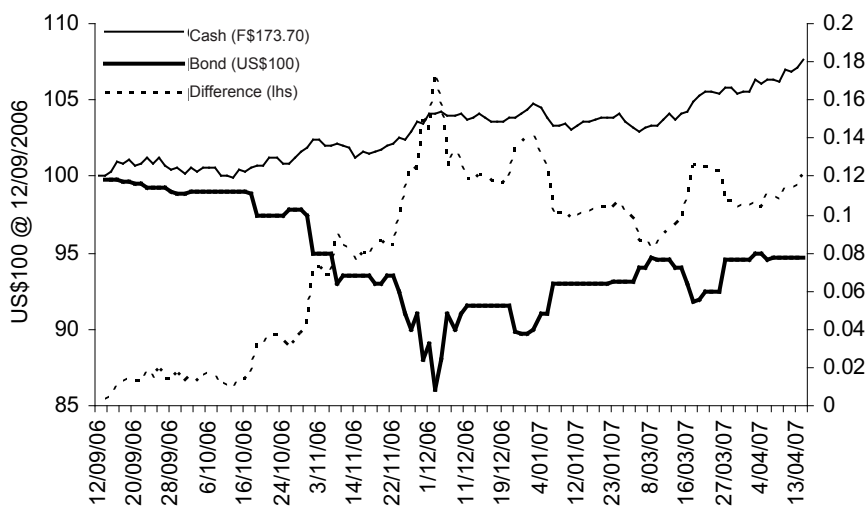
Economic survey

Figure 4 Fiji sovereign bond price, 13 September 2006–27 April, 2007



Source: JP Morgan Securities (Asia Pacific) Ltd.

Figure 5 Extent of over-valuation of the Fiji dollar, 12 September 2006–13 April 2007



Source: JP Morgan Securities (Asia Pacific) Ltd.

Economic survey

value of the currency is the result of the formulaic impositions on its determination from the Reserve Bank of Fiji, with the latter standing guard to protect it.

Absent capital controls, and with an open capital account, arbitrage would be expected between the two investment options: the difference, therefore, is in the main due to capital controls. Despite this clear evidence of an overvalued Fiji dollar, the Reserve Bank of Fiji has been reluctant to devalue the dollar. This reluctance is perhaps due to a fear of destabilising the currency by devaluation, particularly when the markets have been anticipating one. Capital controls are more effective during short bouts of uncertainty such as following a coup, as demonstrated with earlier coups. On its own, devaluation could have induced a run on the currency, forcing the hand of the authorities to devalue the currency further, even if this was not necessary prior to the coup. But, these strategies work only in the short term since investors find alternate means of circumventing the capital controls or consumers go on an import binge in the face of an imminent devaluation. However, the evidence of an over-valued exchange rate existed long before the coup of December 2006.

The Reserve Bank of Fiji has been easing liquidity recently (while at the same time tightening capital controls in order to protect foreign reserves) in order to stimulate domestic investment. The Bank has been directing credit to investments and rationing the supply of foreign exchange in the hope of encouraging exports. Success on this front, however, has been less than encouraging. This can be concluded from the Reserve Bank of Fiji's repeated warnings regarding falling export income and buoyant imports, and thus a widening current account deficit; but it has yet to acknowledge that at least some of the blow-out in the current account may be of its own making.⁸

The Reserve Bank of Fiji's interventions go well beyond its mandate of maintaining price stability and a healthy level of foreign reserves, as well as being intensive in monitoring capacity—something that the Reserve Bank of Fiji lacks. An easier solution to restoring external balance would have been to devalue the currency followed by an easing of capital controls so as to tap into the benefits of rapidly growing regional and global economies. The queuing costs for foreign exchange and the implicit tax on export of capital from the myriad of regulations all raise costs of investment, and thus penalise growth and stall recovery. In my view, the Reserve Bank of Fiji has unnecessarily entangled itself in activities beyond its mandate and capacity while at the same time locking itself out from devaluing the dollar. The longer the Reserve Bank of Fiji holds out on devaluation, the larger the correction necessary to restore external balance. The only potential saviour in such an eventuality would be capital inflows sufficient to offset the current account imbalances—a possibility only with a substantial rebound in investor confidence.

Employment conditions are likely to remain subdued until investment picks up. In the meanwhile, workers who have lost jobs and those with reduced hours of work are likely to face hardship. There is considerable anecdotal evidence of rising poverty, particularly within the urban informal settlements. In its February 2007 Survey, the Fiji Employers Federation noted increased redundancies, reduced hours of work and temporary termination of work, all of which will increase in the absence of an economic rebound. Since independence Fiji has witnessed an increase in the working-age population, particularly within the urban centres (see Table 1). Unless utilised, this demographic bonus could be a recipe for further social and economic problems.

Sectoral prospects

Garments

Prior to 1987, Fiji had a small garment sector, but exports grew rapidly after 1987 (Storey 2005). The major drivers of this change were domestic, including: the devaluation of the Fiji dollar by some 33 per cent in 1987; the offer of tax concessions and publicly subsidised infrastructure,⁹ and, a wage freeze and restraints on labour unions following the first coup. External conditions were also favourable, including the preferences afforded via SPARTECA,¹⁰ the 1991-introduction of the Australian Import Credit Scheme, the high tariffs imposed in Australia on textiles, clothing and footwear (TCF) imports, and the Multi-fibre Arrangement (MFA) quotas provided to Fiji. What changed in 1987 were the domestic conditions. Thus the growth of garment exports in 1987 and later must be attributed to these factors only.

What has changed since? On the domestic front inflation has picked up, diminishing the real value of the dollar. Wages, overall, have risen but without any evidence of a commensurate increase in productivity and the tax exemptions have expired. The Fiji dollar was devalued by further 20 per cent in 1998, but without the wage restraints of the earlier era. We have had two more coups since, but without the export incentives offered earlier. Political instability has continued since 2000 and so has the emigration of the skilled workforce. The domestic distortions have biased local investment into acquisition of skills and qualifications for emigration, thus penalising the growth of local and internationally competitive industries. External conditions have changed in the interim. China has entered the scene with its ability to mass produce garments at a fraction of the cost of its nearest competitors. The MFA expired at the end of 2004. The Australian tariffs

on TCF imports have been falling, even though the TCF clauses of SPARTECA have been extended for seven years. Australian tariffs will fall further under its APEC/WTO commitments. This will increase competitive pressures faced by the local industry. Fiji can do little about stalling these changes.

The consequences of the decline in the garment industry have been growth in 'the working poor' and an industry that has been locked into producing a narrow range of products that are intensive in the use of low-cost labour for a single market. What could have been done or, rather, what can be done, given the changing external conditions, to assist the garment industry? Local protection is definitely not the answer, as it will only exacerbate the existing problems. Another tax-free zone will probably be of little and at best temporary relief. The tax-free zones were initiated during a period of civil strife with a view to seeding the establishment of an internationally competitive manufacturing sector. It was clear from the start that the incentives offered were temporary but rationalised on the grounds that the industry would move up the value-adding chain, possibly into more sophisticated manufacturing and potentially services, once the base had been built. Why did this not eventuate?

Continued political instability, the lack of personal safety, and a sense of insecurity in relation to fixed investments, particularly in the aftermath of the 2000 coup and the subsequent mutiny at the military barracks, have been the major disincentives to growth of a local and internationally competitive industry. As the international literature suggests, subsidies offered on infant-industry grounds have seldom been successful. There is substantial anecdotal evidence to suggest that the insecurity since the first coup has induced investments into mobile (human) capital that, in turn, has fuelled the high emigration. It is these domestic factors that

Economic survey

need redressing if employment conditions are to be improved. The challenge is not to save the garment sector *per se* but to support investment and growth of the domestic economy as a whole.

Sugar

The sugar industry, which includes the growing of sugarcane and manufacture of sugar for exports, has historically had a central place in the economy. The industry still provides the livelihoods of a large part of the population and remains a major earner of foreign exchange. Sugarcane production peaked at 4.38 million tonnes in 1996 when it accounted for some 11 per cent of GDP and some 37 per cent of merchandise exports (measured net of re-exports). As of 2005, the most recent period for which published data is available, sugar accounted for 6 per cent of GDP and some 26 per cent of total merchandise exports (again excluding re-exports). Production has been declining over the past decade as leases of land on which the crop has been cultivated have been expiring. While some landowners have been induced into taking up sugarcane farming by government subsidies, many of the farms from which the tenants were displaced remain fallow. Incidentally, the decline in sugarcane production predates the announcement of price reductions by the European Union but is coincidental with the uncertainty about the loss of leases (Prasad and Narayan 2004).

The Interim Government has expressed its commitment to reviving the industry to its former health. The Interim Finance Minister announced in the budget the following investments as part of a sugar industry reform package

- the upgrading of mill facilities—to increase mill capacity and efficiency
- improvements to the mill transportation system—to reduce costs of carting cane
- modernising farming methods—to improve farm productivity, and
- diversification of industry risks into value-adding opportunities such as cogeneration of electricity and ethanol production.

The Minister has since announced a target of raising sugarcane production by 1.3 million tonnes in three years time. Given the harvest of 3.2 million tonnes in 2006, this would mean returning production to its peak of 1996. Mills are to be upgraded by 2008 while the Sugar Research Institute has been tasked to 'educate' the farmers in order to improve yields (*Fiji Times* online, 3 April 2007).

Returning the industry to its glory days may be difficult given that both domestic and international conditions for sugar have changed markedly (Chand 2005). Leased land, on which the bulk of sugarcane has been grown, continues to be vacated as leases expire. Many of the displaced farmers have been swelling the ranks of squatters around urban centres of the two main islands. While Fiji has an abundance of unfarmed land, mobilising it for development has to date had limited success. This is in contrast to the success Ratu Sir Lala Sukuna had some 70 years ago (Ward 1995). On the external front, the European Union has announced a price reduction of 36 per cent to be spread over three years.

Much like garments, external conditions have conspired with deteriorating domestic conditions in weighing down the sugar industry. The solution, once again, is not in reviving the sugar industry *per se* but facilitating structural adjustment so as to assist the development of an internationally competitive domestic economy. Help with such adjustment has been promised from donors. The European Union has promised some F\$132.6 million over the 2007 to 2010 period in support of such a transition, with a similar amount promised for the 2011 to

Economic survey

2013 period. Access to these funds hit a snag following the recent coup, however. While some recent progress has been made in securing this support, the funds had not reached Fiji at the time of writing this survey. The promised support is crucial to alleviating the pains of adjustment for the labour and capital locked in the declining industries.

Support for adjustment to a subsidy-free environment is justified, particularly when the industry is large and the adjustment is likely to create large dislocations of labour and capital. The same argument cannot be made for trying to save, with taxpayer funds, an internationally uncompetitive industry. In this light, it is not clear that the current government attempt to save the sugar industry is a wise option. A more neutral regime, with the private sector given the responsibility to make these judgments, is definitely a superior strategy. This principle holds just as true for the garment sector. A neutral regime with respect to growth of individual industries offers the best chances for the emergence of internationally competitive industries. Policymakers have a role in ensuring competitive access to basic public goods, including policy stability, so that investors can plan with certainty over a long horizon. This requires a competitive interest rate, which in turn requires prudent macroeconomic management, including a low and stable inflation rate and fiscal sustainability, security for persons and property, including low costs of enforcing debt contracts and supporting regulation.

Tourism

Tourism is a significant sector of the economy and, unlike sugar, one that has been expanding except for short periods following the coups. Tourist arrivals are extremely sensitive to perceptions of security in the host nation. If past coups are any guide, a rebound in tourism

numbers will happen quickly following a return to normalcy. The slow easing of travel warnings by the major source countries—Australia, New Zealand and the United States—appears to be contributing to a continuing decline in visitor arrivals, despite the heavy discounting of hotel rooms (by as much as 40 per cent).

Australia has been the major source nation for Fiji's tourists, accounting for some 35 per cent of the total arrivals of around 550,000 in 2005; New Zealand came second with a share of 21 per cent; and the United States was third, accounting for a further 13 per cent (Reserve Bank of Fiji 2006: Table 30). Fiji's gross earnings from tourism in 2006 have been provisionally estimated by the Fiji Islands Bureau of Statistics at F\$741.7 million. This was an increase of F\$8.5 million or 1.2 per cent over gross earnings of F\$733.2 million in 2005. The Bureau's preliminary estimates show tourist arrivals in 2006 of 545,168, a decrease of 4,743 or 0.9 per cent from the 549,911 arrivals during 2005. The last quarter of 2006, when political tensions were at their highest, was hit the hardest in terms of tourist arrivals. According to the Bureau, gross earnings from tourism for 2006Q4 (Oct–Dec) totalled F\$186.5 million, a decrease of F\$2.1 million or 1.1 per cent over gross earnings of F\$188.6 million for the corresponding period in 2005. This decline was due to a fall of 5.8 per cent in tourist arrivals, equal to 7,838, compared to 2005Q4 (*Fijilive*, 27 April 2007).

The prognosis for tourism in 2007 is less than promising. There are widespread media reports of hotel operators facing record vacancies and workers being laid off; Reserve Bank of Fiji (2007) reports hotel occupancy for March 2007 at 31 per cent. As of May 2007, Air Pacific, the national carrier, was in the process of cutting down services in the face of falling passenger numbers; the airline reported a drop in passenger numbers of 15 per cent in the first quarter

Economic survey

of 2007 compared to the corresponding period for 2006. The airline announced the cancellation of four flights per week from Sydney, one flight per week from Brisbane, three flights per week from Auckland, one flight per week from Tokyo, and deferred the commencement of a planned fifth weekly flight between Nadi and Los Angeles (*Fijilive*, 21 May 2007). This is a major setback, especially compared to the pre coup prospects for a rapid expansion in tourist arrivals following the completion of several major hotels. There were several other resort developments either in the pipeline or being planned. The slump in visitor arrivals and the heavy discounting by hotels will hurt profitability of existing operators, many of whom have sunk substantial amounts of capital into immovable assets—even more importantly, the slump will scare away future investments. This is unfortunate since Fiji has many natural advantages, including being centrally located within the Asia Pacific region, having well-developed infrastructure with a hospitable citizenry, and the climate and close to pristine natural environment to excel as a tourist destination for the swelling ranks of the middle class in the region. An expansion of the tourism industry would have taken much of the pressure off the Fijian economy with respect to the adverse employment and foreign exchange earnings impacts from the declining garment and sugar sectors.

Information and communications technology

There has been some recent growth in the information and communications technology (ICT) sector. Fiji has locational advantages since the Southern Cross cable and the international dateline both pass close by. Fiji, furthermore, has an English-speaking and relatively skilled workforce able to support data processing. An uncompetitive telecommunications

sector has been a major drag on the ICT industry, an issue that has been taken up by the Interim Government (Duncan 2004, 2007). The Interim Minister for Commerce has announced the government's intention to induce increased investments into business process outsourcing and call centres, software development, and information technology training. The specifics, in terms of the inducements to be offered to investors, remain to be detailed, however. The government does not have the resources to provide tax concessions to individual investors and doing so, in any case, is unlikely to attract the scale of investments that is required. Access to a more competitive telecommunications and public infrastructure is likely to be a lot more helpful than policies targeted at development of particular industries or localities (Duncan 2007).

The way forward

The immediate challenges for government are in addressing the growing fiscal pressures and addressing problems of governance, whilst raising the rate of growth of the economy. Some thoughts on the possible policy options to address these challenges are explored next.

Attaining fiscal sustainability has been an immediate priority. The government has announced its intention to contain the budget deficit to 2 per cent of GDP and reduce the level of public debt to 45 per cent of GDP over the medium term. The revised budget brought down in March 2007 projected total revenues of F\$1,471 million, an increase of nearly 6 per cent over the estimate for 2006 and an 8 per cent decline from the projection for the 2007 Budget brought down by the ousted regime in November 2006. Total expenditure for 2007 has been anticipated in the revised budget at F\$1,572 million, a revision downwards

Economic survey

of 8 per cent from the earlier estimates for 2007 but still a 2 per cent increase over the figure for 2006. The revenue estimates in the revised budget are based on an economic contraction of 2.5 per cent of GDP. On current trends, particularly the falling tourist numbers as of May 2007, GDP is likely to contract by more than this. The revenue projections, particularly when compared to the estimates for 2006, look optimistic. Containing the deficit to 2 per cent of GDP, therefore, may entail much greater expenditure cuts than originally envisioned. The commitment to containing the deficit within the announced target could be counter-productive, particularly if it is achieved at the expense of investments necessary to induce growth of output.

The projected budget deficit of 2 per cent is based on a lower projected increase in expenditures than in revenues. Lower growth or even cuts in recurrent expenditure run the risk of further eroding access to public services, which is crucial for attracting private investment. Therefore, the government would, sooner rather than later, be forced to consider additional revenue raising measures. The challenge in introducing additional taxes would be in ensuring that they do not discourage private investment. Raising taxes on mobile capital and skilled labour could be counterproductive as this will only induce them to leave the shores of Fiji, leaving those factors that are unable to move worse off after the taxes. If anything, conditions should be made more attractive for these mobile factors to remain to provide the impetus for private sector growth.

Unskilled labour and land, being immobile and thus unable to evade taxes, are the only possible candidates for increased taxation. Taxing income of labour poses several logistical problems while also being regressive. This leaves land, on several grounds, as the preferred

candidate for taxation. First, land cannot escape offshore; it cannot hide; the owners are not the poorest in the community; and its supply is fixed. Even more importantly, taxing land could induce its mobilisation for productive use. The politics of taxing land and enforcing compliance may pose significant and possibly insurmountable difficulties, however.¹¹

Governance for growth

The newly established Fiji Independent Commission Against Corruption (FICAC) has much to live up to. The Commission has the powers to investigate corruption and report these directly to the President. Another special unit is to be set up within the Finance Ministry to carry out investigations of all allegations of abuse of public funds. According to the Interim Minister for Finance, this special unit will be equipped with competent and experienced auditors empowered to visit agencies unannounced, conduct spot checks, and prepare timely audit reports. Unless this unit is a simple revamp of the Internal Audit Unit within the Ministry, it may entail costs of duplication. While it is often reported that corruption has risen significantly over the past decade, and thus combating its rise is long overdue, the creation of new agencies with parallel responsibilities to existing ones is unlikely to be productive. Arguments for economies of scale in fraud investigation and prosecution would suggest that amalgamation of existing agencies could have been a better alternative.

For the bulk of its post-independence history, Fiji has been governed democratically. Normalcy, therefore, requires a return to constitutional rule—a fact that has been put as a precondition for the complete re-engagement of the donor community. The medium to long-term challenge for the Interim Government is to chart a path to constitutional rule. A rebound in

Economic survey

the economy is likely to assist in such a transition while an economic crisis is just as likely to spill over into political chaos.

Conclusions

In bringing down its 2007 Budget, the Interim Government announced that it was either a 'swim or sink' situation for the country. The Interim Minister for Finance announced his intentions of belt tightening, particularly with respect to recurrent outlays. On assessments up to April, the extent of belt tightening may not have been sufficient to ensure that the budget deficit remains within the target 2 per cent of GDP. Absent a strong rebound in the economy, debt levels are equally unlikely to return to 45 per cent of GDP over the medium term as announced in the budget. The government, therefore, may be forced to reconsider its deficit target set for 2007.

Foreign reserves have been falling since 2002 and are unlikely to rebound soon given prevailing policies. Efforts by the Reserve Bank of Fiji to protect reserves using tightened capital controls, and the introduction of a credit ceiling on commercial banks, are going to raise the cost of credit, making economic recovery all the more difficult. The Reserve Bank of Fiji, in all likelihood, has got itself tangled up in rationing foreign exchange while the nominal (and the real) exchange rate(s) have appreciated sharply since September 2006. The loss of foreign reserves due to the worsening of the trade balance, therefore, could be of its own making. On one measure, that of the difference in the value of Fiji's sovereign bond with the official exchange rate, the F\$ was over-valued by 12 per cent as of 16 April 2007.¹² Macroeconomic stability requires a return to fiscal sustainability and external balance. As regards the former, new revenue raising

measures need to be considered while on the latter, the Reserve Bank of Fiji's arm may ultimately get twisted to devalue the dollar. The longer the Reserve Bank of Fiji holds out against devaluing the dollar, the larger the correction that will be necessary when its hand is forced. The only saviour would be large capital inflows and/or substantially increased exports, both of which are unlikely without a substantial boost in investor confidence.

There is little choice but to revive the economy. The position as of April 2007 was neither one of sinking nor swimming but more akin to floating. Continuing with the water metaphor, the economy had been taking in water well before the December coup. Total investment as a share of GDP had reached a low of 11.3 per cent by 1996, with each of the coups pushing the economy back by an average of three years in terms of per capita income. The challenge for the policymakers in raising growth is both to improve the immediate conditions for investment and putting in place measures to prevent future coups.

As regards the prospects for an early economic revival, tourism offers the best potential. Gold and garments have both made their retreat in terms of foreign exchange earnings and their contribution to employment generation. The international conditions for sugar are rapidly changing, and thus hope of its revival could be misplaced. Furthermore, the problems within the garment and sugar industries are the cumulative effects of long-standing and unattended local problems. The increased pace of liberalisation of global trade over the recent past has only exacerbated the pressures for change. Freer global trade poses risks to individual economies, but these risks can be managed. Fiji has failed to do this.

The policy challenge is one of providing a local environment conducive to investment by the private sector. It is the private sector

Economic survey

that is best positioned to assess the risks and rewards of specific investments. The public sector has an important role in providing public goods and adjustment assistance where dislocation of labour and capital are likely to be large. The garment and sugar sectors qualify on the latter consideration. Trying to 'save' an industry that otherwise would have collapsed in the face of international competition is tantamount to throwing good taxpayer funds to waste. This issue is particularly relevant to the proposed reforms of the sugar industry, which are being funded with a loan.

ICT activities form a small, albeit growing, sector. Its expansion, as much as for other sectors, requires political stability, law and order, and a competitive communications and transport infrastructure. Providing these services in a climate where budgetary resources are likely to dwindle poses the severest challenge to economic management in contemporary Fiji. The rhetoric in the budget regarding the deregulation of the economy and improvements to governance is timely, but there is likely to be a considerable lag between words and deeds. Time, unfortunately, is not running in Fiji's favour.

Notes

- ¹ The growth figure for 2006 is likely to be revised downwards; the Governor of the Reserve Bank of Fiji has suggested a growth rate of 3.4 per cent.
- ² The under-employed, who roam the streets in search of work, are the 'walking poor'.
- ³ The figures used here are from the World Bank and are reported in Table 1. The Reserve Bank of Fiji gives slightly different numbers, but qualitatively similar conclusions.
- ⁴ This issue is taken up in further detail in a companion paper (Chand 2007, this issue).

- ⁵ Each of the coups has constituted a major shock to the economy, thus credit is due to the economic managers in averting an economic meltdown following past coups.
- ⁶ A simple regression of the Fiji dollar on the one-day lagged values of five currencies, where the US dollar is used as the *numeraire*, employing daily data from 30 June 2006 to 16 April 2007 gives the following estimate

$$\begin{aligned} \text{F\$/US\$} = & 0.43 + 0.44 \text{ A\$/US\$} + 0.35 \text{ euro/US\$} \\ & (30.43)^{**} \quad (35.32)^{**} \quad (13.10)^{**} \\ & + 0.23 \text{ NZ\$/US\$} + 0.00063 \text{ ¥/US\$} + \text{error} \\ & (43.02)^{**} \quad (4.89)^{**} \\ \text{Adj-R}^2 = & 0.997; n = 164. \end{aligned}$$
- ⁷ While Fiji's total merchandise trade with the United States is less than 10 per cent, US dollar-denominated trade still dominates. For example, all of mineral fuels imports and the bulk of the remaining imports are US dollar denominated.
- ⁸ The increase in the cost of mineral fuels accounted for just one-third of the 16.9 per cent increase in imports to November 2006 (Reserve Bank of Fiji 2006:18).
- ⁹ The Kalabo tax free zone, for example, was built with a European Union grant of \$7.25 million dollars.
- ¹⁰ SPARTECA is a non-reciprocal trade agreement whereby Australia and New Zealand offer duty free access to all products originating from the developing island member countries of the Forum. SPARTECA came into effect for most Forum Island Countries from 1 January 1981 and the current list of countries includes Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa.
- ¹¹ Land has been a rallying point for politicians all over Melanesia and most so in Fiji. Good economics parts company with good politics on issues pertaining to land, thus this may be politically infeasible.
- ¹² This assumes that the currency was at par when the bonds were floated.

Economic survey

References

- Abbott, D.F., 2007. Fiji analysis of the 2002/03 household income and expenditure surveys: estimation of basic needs poverty lines and incidence of poverty in Fiji, Draft Final Report, prepared for United Nations Development Programme, Suva (unpublished).
- Asian Development Bank, 2003. *Fiji Participatory Assessment of Hardship and Poverty*, Asian Development Bank, Manila.
- Barr, K. and Naidu, V., 2002. 'Comment on poverty', presented at the Fiji Update, University of the South Pacific and The Australian National University, Suva, 12 June.
- Chand, S., 2005. 'Globalisation or self-inflicted wounds in the Fiji sugar and garment industries', *Pacific Economic Bulletin*, 20(3):124–29.
- , 2007. '50/50 by 2020: poverty and redistributive politics in post-independence Fiji', *Pacific Economic Bulletin*, 22(2):22–35.
- Duncan, R., 2004. 'Information and communications technology in the Pacific islands: marginalisation by monopolisation', *Pacific Economic Bulletin*, 19(2):129–31.
- , 2007. 'A "clean-up campaign" for Fiji's economy', *Pacific Economic Bulletin*, 22(2):119–26.
- Fiji, 2001. *Key Statistics, December 2000*, Bureau of Statistics, Government of the Republic of Fiji Islands, Suva.
- McKinnon, J., Whitehead, S., Chung, M. and Taylor, L., 2007. Fiji informal settlement scoping mission report, Wellington (unpublished).
- Prasad, B.C. and Narayan, P.K., 2004. 'The relationship between Fiji Sugar Corporation's profitability and sugarcane production', *Pacific Economic Bulletin*, 19(2):19–32.
- Reserve Bank of Fiji (RBF), 2006. *Quarterly Review*, December, Suva.
- , 2007. *Economic Review*, 24(4), April, Suva.
- Storey, D., 2005. 'End of the line? Globalisation and Fiji's garment industry', paper presented at the conference on *Globalisation, Governance, and the Pacific Islands*, The Australian National University, Canberra, 25–27 October.
- United Nations Development Programme (UNDP), 1997. *Fiji Poverty Report*, UNDP and Government of the Republic of Fiji Islands, Suva. Available online at <http://www.undp.org.fj>
- , 2007. *Human Development Report: human development and climate change*, UNDP, New York. Available online at <http://hdr.undp.org>
- Ward, R.G., 1995. 'Land, law and custom: diverging realities in Fiji', in R.G. Ward and E. Kingdon (eds), *Land, Custom and Practice in the South Pacific*, Cambridge University Press, Cambridge:198–249.
- Winters, L.A. and Martins, P., 2004. 'When comparative advantage is not enough: business costs in small remote economies', *World Trade Review*, 3(3):347–83.
- World Bank, 2007. *World Development Indicators*, World Bank, Washington, DC. Available online at <http://www.worldbank.org/data> (accessed 15 May 2007).

Acknowledgments

Helpful comments and assistance with data from Amy Auster, Meron Desta, Ron Duncan, and Azmat Gani are gratefully acknowledged. Any remaining errors and views expressed are those of the author alone.